

Xi Opts for Negative Optimism Model – ‘High Quality’, Slackening Growth

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President Xi Jinping this week presented a new three year plan for the Chinese economy at a closed door meeting of the leadership. China has invested huge sums in infrastructure improvement in recent years to maintain growth until trade returns to a pre-crash level. Those efforts merely lowered the decline in the growth rate from whole numbers to fractions at the cost of a huge debt that the self-declared market economy can no longer sustain. The hope was that the world economy would have returned to the hot times of previous years. But world economic stagnation, if not permanent, has certainly become a long-term chronic condition – China must now change course, and much like the general whose army is in headlong flight reports back to headquarters that he’s just changed the battle plan, Xi announced that we must now preserve and improve what we have. Unfortunately the transition from Stalinism to Capitalism has at least doubled the degree of social and economic irrationality, and in the past where it lazily festered on home ground, it is now worldwide and bearing the likeness of Trump.

Xi has been waging a war on corruption since 2012. Some big fish, like Politburo member Bo Xilai, have been captured and cooked but now it seems that the meaning of corruption has been expanded to include getting things wrong in the course of doing one’s job. President Xi, July 2017:

“Financial regulators should cultivate a solemn regulatory environment...Under such an environment, each failure to detect financial risks should be regarded as negligence of duty, and each failure to alert and handle financial risks should be regarded as misconduct.”

Apparently that would mean that administrators should have known that investing in risky ventures would have prevented things like the \$4 billion bankruptcy of state-owned Guangdong International Trust & Investment Co.

That all the myriad interactions of a fundamentally anarchic economic system cannot possibly be known before something actually goes wrong is a lesson yet to be learned by the new nominally reddish capitalists. But it’s nice to know that the leadership is preserving a strain of Stalinist lunacy. Since all legal investing includes risk, punishing financial regulators for failing to detect and prevent a risk from becoming a loss a split second before it becomes one is much like Stalin shooting Soviet soldiers for escaping from Nazi captivity because the fact that

they were caught means they must be traitors. Forget that, thanks to inept leadership of the Stalinist bureaucracy, they were thrown into battle ill prepared for an enemy force. Expect many financial regulator heads to roll with the next financial paroxysm, especially since a huge part of the economy is off the books and self regulated. Of the \$15 trillion asset management business \$3.9 trillion is managed by financial trusts. Accurate tracking of what they do is like having a thorough knowledge of future prospects in the Bitcoin industry.

It's almost heartwarming to see how Chinese baby capitalism is learning some of daddy capitalism's tricks. Under pressure from the US and other nations for alleged dumping (note – the US has a \$251 billion negative balance of trade with China through the 11 months of the year – perhaps more concern about US companies dumping their *work* abroad should be the focus of attention) they are demanding from the WTO that they be declared a market economy. That way they establish that trading arrangements fit perfectly within the rules of such a system. Incidentally, if the WTO agrees to designate China a market economy, they are then officially a capitalist nation, and every honest person is duty bound to correct their language.

An interesting aside to President's Xi's anti-corruption campaign is the sharp distinction between the giver and taker of bribes. China is striving to build a large and strong middle class of businessmen to form a barrier between the super rich capitalists at the top and the angry masses struggling to survive at the bottom. China's Gini rate is .465 – anything above a .40 means rebellion. Recently 19 workers/peasants (the Chinese press insultingly calls them migrants even though they are Chinese people from a rural area of China) living in buildings not constructed for human habitation were killed in a fire. The authorities then sent the police to evict all those living in abandoned industrial structures which naturally led to large scale protests and riots. China's gigantic debt load means that the country can no longer indulge in large make-work type construction projects. As the economic growth continues to decline because of the stalled world economy mass popular explosions will rise. It's one thing living in a country in which no one is rich – but that is no longer the case today. So China needs a happy bunch of middling nouveau parasites that will be willing to fight for their right to live off the labor of others. So here is how prosecutors are mandated to treat “entrepreneurs.”

“Under the guidelines, all prosecutor's offices had to foster an environment for entrepreneurs and their businesses, *'strengthening their sense of personal and wealth security, and boosting confidence and providing incentives for businesspeople to innovate and start businesses'*, the official *Procuratorate Daily* quoted a spokesman for the top prosecutor's office as saying on Wednesday.”

Now, under China's criminal law it is perfectly legal to give money or something of value to a civil servant as long as the giver does not directly ask for something in return. In other words, it's OK to groom or condition a civil servant to have a

favorable attitude toward the giver as long as the taker determines the when and what of the payback.

The new tax overhaul that has been criticized mainly for changes in the personal tax rate that is easier on the rich. With the almost doubling of the standard deduction it will also probably benefit the poorest. The real gift is to corporations. The rate ranged from 15 to 35 percent depending on income. Now it will be a flat 21%. The plan is that a huge amount of former tax money will be spent on job generating investment. Maybe some of the 16 million missing workers will then return to the labor market to snap up those good jobs. Then the 4.1% unemployment rate will be closer to a reality. But that is very unlikely because it's quicker and safer to make money by purchasing other companies and profit from the combined shrinkage. Stock buybacks are even simpler. The S&P 500 companies purchased \$3.5 trillion of their own stock between 2010-2016. That's 50% more than were purchased in the previous recovery period. The true meaning of the corporate tax cut is to maintain the illusion that financial asset growth is real economy growth. Illusions, like dreams or mirages, are often seen to be real but in this case the ruling class has ventured into dangerous territory by shoving the collective American face into a vat of the most disgusting greed. While it's true that greed does rule the heart of the typical capitalist, these tax changes have more to do with fear, fear that the spinning plates will begin falling to the ground, and an even more desperate fear that they won't have a clue as to what they should do when that happens.

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